

## CORPORATE SOCIAL RESPONSIBILITY AND THE DYNAMICS IN THE INDIAN BANKING SYSTEM

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### ABSTRACT

*Corporate Social Responsibility (CSR) has observed a colossal growth in terms of recognition in the latest years on a worldwide basis. Corporate social responsibility (CSR) refers to strategies that Corporations or firms employ to conduct their business in a way that is ethical, society friendly, and beneficial to the community in terms of development. The relation between Corporate Social Responsibility and the banking system is based on a notion where the business organizations apart from their profitability and growth show interest in societal and environmental welfare by taking the responsibility of impact of their activities on stakeholders, employees, shareholders, customers, suppliers, and civil society. Economic expansion is indeed essential presently around the globe, because of which there is demand for Financial Institutions to take a central role in the efforts to eliminate poverty, achieve equitable and accountable systems of governance and ensure environmental security. In this regard, actions taken by corporate houses and regulatory authorities operating in developed nations are quite satisfactory. However, in developing nations the situation of CSR activities by financial institutions is not so flourishing. In this reference, the present paper attempts to analyse the CSR practices in the Indian banking sector.*

**KEYWORDS:** *Public Sector, Private Sector, RBI Data, Ethical Business Practices, India, Corporate Social Responsibility. The Author has witnessed a Complete Transformation of the Indian Banking Industry in the Past Few Decades Ever Since the Nationalization of Banks In 1991. There has been Great Progress Made by the Banks Together as Over Sixty Percent of the Population Now Own a Bank Account; However, Forty Percent of the Indian Population is still without a Formal Banking Account. An Important Point is that there is a Huge Difference in the Functioning of Banks from Each Other. The Author has picked up the Example of Old Banks Vs New Banks. The New Age Private Sector Banks Have Not Only Seared Their Allegiances to Customers but Have Also Been Responsible in Their Behavior Towards Society and the Environment. The Penetration of Banking in Urban Indian is Way higher than in Rural India. On Average an Urban Working Professional Is Likely to Have a Minimum of Two To Three Bank Accounts Whereas a Distant Villager Does Not Have Even One Bank Account.*

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### Article History

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### INTRODUCTION

#### The Weakening of Public Sector Banks

The last two decades show that new banks in the private sector are taking up the market share with their reliance on new technologies for handling systems and individual products, innovation, customer-first attitude, effective sustainability

models, and more responsibility towards the environment and law. If a recent three-year characterization of India's banks is sought, the burgeoning stress in the balance sheets of most of the public sector banks and the consequent deterioration in the capital supporting their businesses becomes a major area of concern.

The author believes that these trends point to a common theme i.e., the weakening of public sector banks. They have lower profitability and productivity ratios than their private-sector competitors. After having lost a significant market share, the asset quality of public sector banks is much weaker and, in some cases, worsening to serious proportions. More alarmingly, several projections for the future made by research analysts who study Indian banks, suggest that the problem could worsen in the next few years when the public sector banks would need huge financial support from the government. Although the government has been helping the public sector banks through constant support, in the past, another level of recapitalization will prove challenging to any Government which aims to achieve fiscal consolidation. It is therefore in the interest of the government as well the whole economy to overhaul the way the public sector banks manage their business and governance issues.

A major share of financial savings is intermediated through the public sector banks, which have been the dominant providers of loan finance for infrastructure creation, manufacturing, farming, retail loans, etc. The public sector banks are too large, too connected, and at the same time too complex for a further weakening of their balance sheets to be contemplated with a balanced intelligence. Through this thesis, the author attempts to diagnose the reasons for the weakening of the public sector banks and provide pointers on how they must adopt CSR as an ingrained practice along with an overhaul of their governance and current practices. If we are to continue to have an important banking system, it better be effective, as the economy cannot risk financial instability – it will be too difficult to manage the fall of public sector banks considering their size and scope. The boards of public sector banks need to focus more sensitively and granularly on bank business strategy and risk mitigation, devote more attention to business development, compliance, and attitude towards customers while being receptive towards customer protection and financial inclusion might impact the business practices and approach towards customer's needs. The public sector banks also need to be conscious of the depletion of human capital, which is likely to worsen in the coming years as senior managers retire and start planning for its renewal. The public sector banks would be required to think ahead of how technological innovations are continuing to change the way customers can bank and be more attentive towards their evolving requirements. The boards of public sector banks need to be fully empowered and have the necessary components of skills for the purpose. Innovate in response to the evolving needs of the customers and the society.

### **Constantly Losing Market Domination: Public Sector Banks**

The graph (Figure 1) displays the market shares of banks on account of the difference in the compounded annual growth rate (CAGR) in assets across categories for the period 2000-2013. The regulator has used the same CAGR for each category to estimate market shares till March 2025, and these shares are displayed in the right-hand bar.

The graph recommends that the market share of the public sector banks will decline from 80 percent in 2000 to just over 60 percent in 2025. It also suggests that the market share of private sector banks is projected to rise to about a third by 2025 from just over 12 percent in 2000. Third, the foreign banks are projected to continue to remain marginal players in the market for bank assets. These projections suggest a very significant transformation in market structure over a quarter-century.

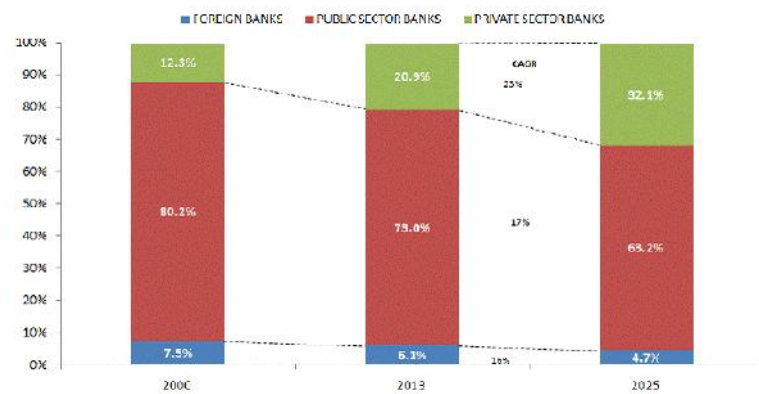


Figure 2.1: Estimates of market share based on linear projection

**Figure 1**

RBI Data – May 2014

**Productivity: Profitability per Employee**

Public sector banks today are seriously handicapped vis-à-vis their private competitors in terms of the human capital deficit. Public sector banks face a huge disadvantage when it comes to employee compensation package, skill sets, skewed age profile, restrictive deployment, performance management system etc. Some of the major HR challenges before public sector banks include building capabilities for the future, improving productivity and performance culture alongside building talent management practices. While public sector banks must cover a lot of ground, the banking sector must move together and join forces wherever required.

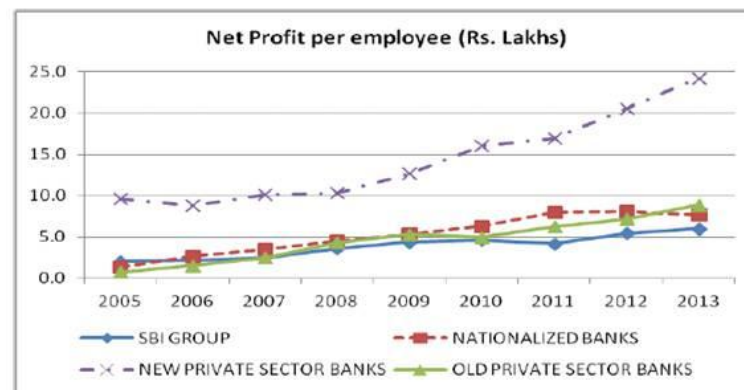


Figure 2.4: Profitability per employee

**Figure 2**

RBI data – May 2014

**Research - Survey amongst Customers****Is CSR Relevant in India?**

The author commissioned a sample survey among banking customers to understand their expectations from the banks and if Corporate Social Responsibility made any sense to the customers.

**RESEARCH OBJECTIVE**

- To understand the consumer perception of Indian banks concerning corporate social responsibility
- To understand the awareness levels of the customers about business practices adopted by Indian banks

- To gauge if the customers might change their banks if found to be not following the Corporate Social Responsibility guidelines

### **Target Audience Selection**

- To achieve the research objective, it was important to choose an informed target audience with an ability to make decisions
- Customers from across the country both urban and rural regions were chosen to participate in the survey
- In addition to the predetermined online research portal, participants from rural areas responded to the questions verbally
- Sample size: Over 100 respondents
- Location: Mumbai, Delhi, Jammu & Kashmir

### **Target Group**

- Educated working professional
- Age group – 21 to 50 years
- Both male and female

## **METHODOLOGY OF SAMPLE SURVEY**

The research was conducted to understand the perception of Indian banks and their approach to CSR amongst their customers (key stakeholders). The survey was conducted both online and offline to gauge the understanding of corporate social responsibility amongst bank customers and how much they perceive their banks as an ethical and responsible corporate. While the survey helped in understanding the behavior of the customers it also revealed few interesting facts. Respondents were contacted via online and offline mediums. A questionnaire was shared with respondents and the responses were collected through online medium, telephone calls as well as personal interactions. The survey was conducted over seven days.

### **Structure of Sample Survey**

Questions were raised on various parameters that impact the overall perception of the banks. The survey was designed to provide insights into the relevance of the core issues that are critical for the sustainability of banks and their effect on customers. The research was conducted amongst bank account holders from urban and rural India, who at least own one bank account and have a fair degree of knowledge and understanding of the way banks function. The research was conducted through an online research platform as well as a period of one week in a free and fair manner. The customers were not given any choices to respond. The answers are subjective and based on their experiences with their banks. Only in the last questions, respondents were asked to rate the top 5 banks based on their CSR activities.

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### Sample Survey Questions

- Age, gender, and location?
- Which is your bank?
- Do you think your bank is responsible towards environment?
- Do you think your bank is responsible towards its employees and society?
- Do you think your bank is ethical in its business practices?

State Bank of India

ICICI Bank

HDFC Bank

Punjab National Bank

IndusInd Bank

None of the above

- Would you change your bank if the bank is unethical, unfair and does not care for the environment it operates in?
- What quality would you wish your bank to have?
- Which of the following is the best bank in terms of fairness towards employees / society, ethical business conduct and responsibility towards environment? Rate from 1-5 (5 being best)

### RESEARCH FINDINGS

**Responsibility towards Environment:** Respondents were asked if they feel that their bank is responsible towards environment.

Fifty-one percent of respondents feel that their bank is responsible for the environment. More than half of the respondents feel that their bank has never negatively harmed the environment so far and few of them have deployed energy-conserving practices. Fourteen percent of respondents do not feel that their banks behave responsibly towards the environment. Thirty-five percent of respondents do not know whether their bank is responsible for the environment or not.

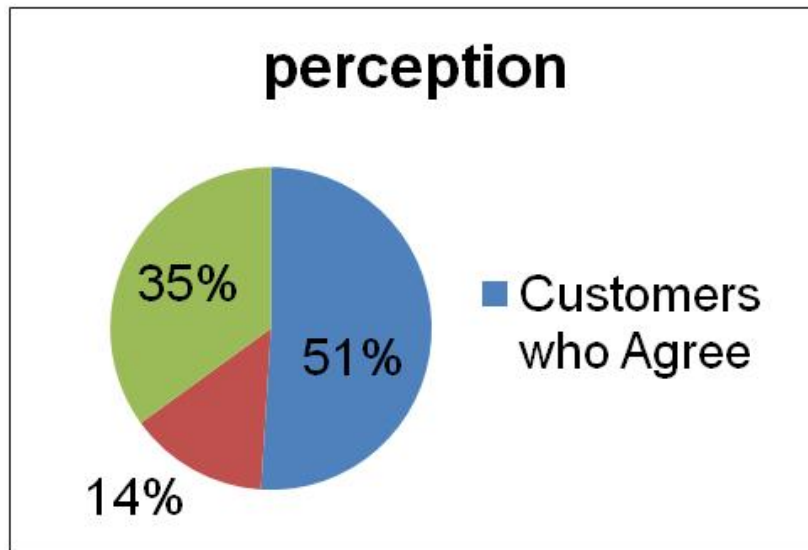


Figure 3

### Responsibility towards Employees and Society

Respondents were asked if they feel that their bank is doing enough for its employees and the societies, they operate in.

Forty five percent of respondents feel that their bank is responsible towards its employees and society. The reason for belief is that they have never heard of any mistreatment of employees or anyone else from the bank. Ten percent of respondents disagree and feel that the bank can do more for its employees and immediate society. It is pertinent to note that a large forty-five percent of respondents do not know if their bank is doing anything for its employees and society.

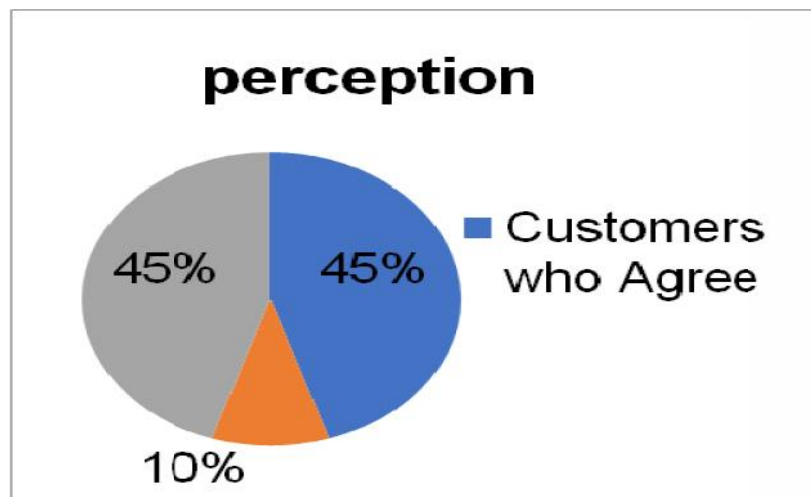


Figure 4

**Ethical Business Practices:** Respondents were asked if they feel that their bank is ethical and transparent in its business practices

A large seventy-two percent of respondents are confident that their bank follows ethical business practices as they have never come to know of any illegal activity done by the bank. Only seven percent of respondents feel that their bank is unethical in its business practice. Twenty-one percent of respondents do not know if their bank follows ethical business practices or not.

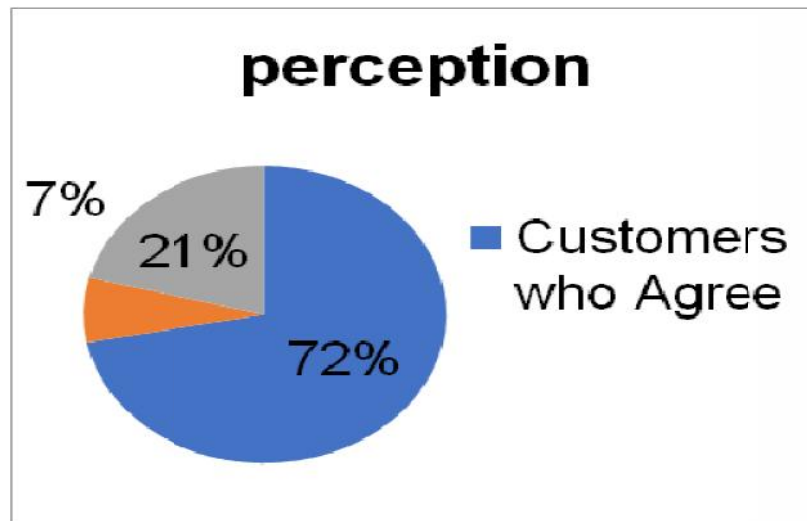


Figure 5

### Does it Matter?

Respondents were asked if they would change their bank on learning that the bank is unethical in its business practices, not responsible towards its employees, society, and environment.

When asked if the respondents would change their bank if they were told that their bank does not follow the three pillars of Corporate Social Responsibility, eighty-six percent of respondents were certain that they will change their bank if they found it to be unfair to its stakeholders, environment or business practices. Only seven percent of respondents were okay with letting their bank follow all CSR parameters while another seven percent said it did not matter what the bank does if their money is safe, and they get good services.

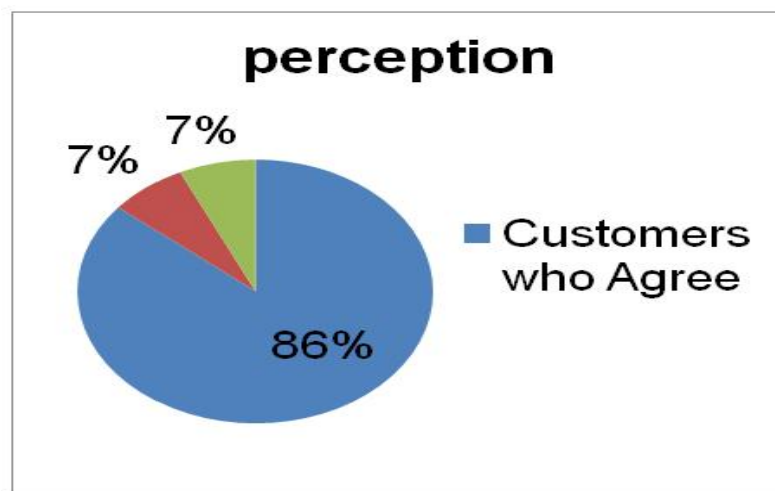


Figure 6

### Analysis of the Sample Survey

Corporate Social Responsibility though in its nascent stage in India, is gaining relevance with each passing day. While the urban educated respondents know that profitable companies must spend a part of their profits towards the betterment of people and the planet as a directive from the government, the rural respondents expect the banks to offer them services best suited to their needs. Customers expect more than just regular service from their banks, or they are ready to move on to



other better and willing banks. With the rise of media, customers have become more aware and are conscious of their power. Most of the customers are also aware of the adverse effects businesses have on the environment, employees, and society at large. The Indian banking customers may not be mindful of the corporate governance rules or the National Voluntary Guidelines (NVG) but they expect their banks to be responsible and follow Corporate Social Responsibility norms. Though the Indian customers are known for their brand loyalty; the customer survey reveals that close to ninety percent of customers would not give it a second thought to change their bank in case it falters on any of the aspects of Corporate Social Responsibility. When asked about the wish list, customers wanted Indian banks to be more:

- Transparent and not applying any hidden charges
- Innovative in offering solutions
- Quick in service and convenient
- Responsible towards society
- Cooperative and more cordial
- Ethical in business practices with no criminal track record

## **THE CONCEPT OF CSR AND RELEVANCE IN INDIA**

“There is one and only one social responsibility of business- to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud. “According to Friedman, 2006.

The management's social responsibility goes beyond making a profit to include protecting and improving the society's welfare of its stakeholders and the environment in which the firm carries out its operations. This statement is based on the belief that corporations are not independent entities responsible only to stockholders“. Robbins and Coulter, 2007

“The business also has the responsibility to the society that allows their formation through various laws and regulations and support them through purchasing their products and services “. Carroll, 2008

“Ethical standards play an important role in a firm's success in the long run. The social responsibility standards and moral activities by a firm can create a positive rapport between the firm and all its stakeholders “. Zain extending Carroll's statement, 2008

In the late 1960s and early 1970s, the term "corporate social responsibility or CSR" came into common use.

“The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large “ Holmes and Watts defining CSR, 1999

Some researchers argue that corporations make more long-term profits by operating with a CSR perspective, while others argue that CSR distracts organizations from their economic role. However, experts have emphasized that the firms will experience divergent degrees of internal, external, and lateral pressures to engage in CSR, as firms are embedded in different nations, business systems. Some experts even referred it to as a form of capitalism amongst corporates.



Corporate Social Responsibility has gained much attention in the corporate world recently. Especially in India after the Corporate Social Responsibility clause has been included under the Companies Act 2013, under which profitable corporates will have to devote a minor percentage of their profits towards areas of national importance. Against this backdrop, it is understood that Corporate Social Responsibility is now an integral part of the functioning of an organization. The performance of an organization should be judged beyond the financial parameters. The boards of organizations need not only focus on the financial performance but also on examining the CSR performance of their businesses. Keeping in view the importance of the banking sector in India, this study is focused on the corporate social responsibility activities carried out by Indian commercial banks.

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